Audit's® NEWS ANALYSIS OF SECURITIES OF REAL ESTATE INVESTMENT TRUSTS

Realty Trust Review

October 14, 1977 VOL. VIII, No. 19

INVESTMENT SELECTION AND REVIEW ISSUE

The REITs and rising interest rates: Setting an investment strategy.....1
Citizens & Southern Realty warrants: Another numbers game but no real play.....3
Large blocks change hands at HNC Realty & Mortgage and Realty Income Trust.....5
Reviews of attractive trusts: Denver Real Estate Investment Assn.....7
Realty & Mortgage Investors of the Pacific.....8

THE REITS AND RISING INTEREST RATES: SETTING AN INVESTMENT STRATEGY

Short-term interest rates continue to rise ominously, with the prime rate now up to 7½% and climbing. Less than four months ago the rate was holding at 6¼% before this climb began May 27.

Where this upmove will end cannot be predicted. The Federal Reserve Board is reining in the money supply to curb any sharp resumption of inflation, all the while trying not to interdict a business expansion that is fragile. The economy remains sluggish despite a Federal deficit counted in the tens of billions, and the Carter Administration's goal of a balanced budget has been pushed back from its 1981 target. Business conditions are so listless compared to the 1972-73 boom that it's difficult to envision the Fed pushing the prime rate back up to 12% but the current stagflation -- i.e., slow economic growth with persistent inflation edging upward from a bedrock 6% rate -- is so relatively new that forecasting future policy by the Fed is tricky.

In this environment you are forced to do the obvious: look for higher short-term rates until a clear-cut reversal becomes apparent. And this forces you to grapple with several key questions before charting investment policy:

1. How do real estate securities stand relative to the market? A recent Wall Street Journal article reported a computer study rated real estate and homebuilding stocks as among the most undervalued groups compared to their future earnings and relative price/earnings ratios. While we like to hear someone else praise real estate stocks, we have difficulty accepting such generalizations.

The plain fact is that our tally of price/earnings ratios for 21 large and actively traded trusts, all with earnings and dividends, show their multiples are priced 67% higher than the Dow-Jones Industrials on average (Table, p.2). Mortgage

KEEPING CURRENT WITH OUR SISTER SERVICE

REAL ESTATE DISCLOSURE DIGEST's October 7th issue discusses the problem of public real estate ownership; Presidential Realty diversifying away from real estate; Ernest Hahn, Inc. continuing vast shopping center expansion, with returns and cash flow up. *Single copies: $8 prepaid*

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PUBLISHED TWICE MONTHLY ON THE SECOND AND FOURTH FRIDAYS/SUBSCRIPTIONS $125 ANNUALLY / SINGLE COPY $7 / BACK ISSUES $1.25 TO SUBSCRIBERS ONLY
GROUP RATES ON REQUEST

PRICE/EARNINGS RATIOS AND DIVIDEND YIELDS

MORTGAGE TRUSTS				PROPERTY TRUSTS			
Trust	Price	Yield	P/E Ratio	Trust	Price	Yield	P/E Ratio
ConnGen. Mtg....	$20.38	7.8%	14	Cont.Ill. Prop.	$15.50	8.3%	27
Equitable Lf....	25.13	8.7	11	Federal Realty.	14.38	8.9	12
Hospital Mtg....	9.38	6.4	18	First Union RE.	12.13	8.2	14
Lomas & Net.Mtg.	18.50	8.6	11a	General Growth.	23.50	6.3	19
MassMutual Mtg..	14.38	8.6	13	Hotel Investor.	16.50	9.7	20
MONY Mtg. Inv...	10.38	8.8	13	Hubbard RE Inv.	16.50	7.5	12
NW Mut. Life....	12.25	8.1	14	Prop. Capital..	11.38	10.5	9
PNB Mtg. & Rl...	11.00	6.5	19	REIT of Amer...	14.88	8.0	15
Realty ReFund...	22.00	10.7	10	Realty Income..	13.00	10.8	8
United Realty...	9.25	8.2	13	Washington REIT.	23.63	7.4	15
Wells Fargo MI..	13.75	7.8	14				
AVERAGES.....		8.34%	13.8			8.33%	15.1

a-Based on latest quarter annualized. All others latest 12 months.

trusts are priced at an average 13.8 times earnings and the property trusts at 15.1 times earnings. With an average 14.4 price/earnings ratio compared to 8.6 for the Dow, the shares must be viewed as vulnerable.

But the REITs really sell on a yield basis, since they pay out substantially all earnings as dividends while the Dow-Jones Industrials pay out only about half of earnings. And the average 8.33% yield is 55% over the 5.37% investors get on the Dow. If investors increasingly are attracted to dividends -- and a strong case can be made for this view -- then REIT shares are not nearly as vulnerable as relative price/earnings ratios make them sound. In other words, the premium P/E is justified by the heftier yield.

2. Are earnings and dividends vulnerable? Judging from the 1974-5 real estate recession, earnings and dividends of this group are fairly stable. All but two, Wells Fargo Mortgage and United Realty, continued dividends without interruption during the recession and WFM skipped only three quarters while United missed one.

The property group was least affected last time around -- and we'd expect that pattern to hold in any future credit crunch. First Union, General Growth, Federal Realty, and Washington REIT held dividends level or raised them. Dividends fell at the others, although the property trusts try to set a fairly stable dividend rate paid from cash flow and hold that rate unless earnings really fall out of bed.

Mortgage trusts tend to go the other direction because they do not have a cash flow cushion and thus pay out earnings almost always equal to quarterly earnings. This means their dividends can move up and down more frequently. Against this backdrop it's useful to look at the peak-to-trough earnings variability of these trusts in the 1974-75 recession for clues to what might happen again. The table on page 3 shows peak and trough dividends for the group, along with the percentage declines.

The lesson of this table is that earnings and dividends of most of these highest quality trusts have fluctuated in the most recent credit crunch and could again. Frankly we would not expect anything like the wide fluctuations tallied because there's very little overbuilding anywhere now, compared to the extreme overbuilding on the eve of the last credit crunch. Portfolios, especially for the mortgage group, are in much better shape now and if you attribute only half of these percentage changes to interest rates and the other half to soft real estate markets, you have a better idea of what might happen in a 12% prime environment. Moreover, restoration of non-earning assets to earning can offset moderate narrowing of spread, witness results of Equitable Mortgage, Wells Fargo Mortgage and MONY Mortgage.

Trust	Peak	Trough	% Fall	Trust	Peak	Trough	% Fall
Mortgage trusts:							
ConnGen. Mtg.....	$0.45	$0.40	-11%	United Realty Tr..	$0.35	$None	-100%
Equitable Life Mtg...	0.61	0.41	-34	Wells Fargo Mtg...	0.54	0.00	-100
Hospital Mtg. Inv....	0.55	0.10	-82	Property trusts:			
Lomas & Net. Mtg.....	1.00	0.09	-91	Cont. Illinois Pr.	0.40	0.32	- 20
MassMutual Mtg.....	0.50	0.27	-46	Hotel Investors...	0.52	0.32	- 38
MONY Mtg. Inv.....	0.27	0.17	-37	Hubbard RE Inv....	0.40	0.30	- 25
NW Mut. Life Mtg.....	0.52	0.25	-52	Property Capital..	0.41	0.26	- 37
PNB Mtg. & Realty....	0.54	0.10	-81	REIT of America...	0.35	0.30	- 14
Realty ReFund.....	0.59	0.40	-32	Realty Income Tr..	0.44	0.14	- 68

3. But will prime climb to 12% again? We seriously doubt that it will. Conditions just aren't comparable and it seems politically infeasible for the Fed to drive the prime out of sight again. More likely would be the Carter Administration sponsoring some tax reduction measures next year to stimulate a flagging economy and thereby giving the Federal Reserve less reason to use monetary policy alone to hold down inflationary pressures.

Our gut feeling is that the Fed won't push the prime over the 8½-9% range absent some unforeseen world crisis. If that represents an upper range for the prime, then we'd expect most mortgage trusts to be able to offset their higher interest costs with floating rates on their portfolios. Tying both sides of the balance sheet worked to a point during the last credit crunch, and that point was about 10% when mortgage rates start bumping into state usury ceilings. Since most construction loans generally float at 3-4% over the prime, there's little margin with prime at 7½% already. Another 1% could be tolerated without terrible damage to earnings and dividends. Over that, we'd start worrying.

Our investment view: Be very cautious on the mortgage trusts. We'd be wary of making new commitments in viable earning trusts without some compelling reason, such as a big reduction in problem loans which could offset rising rates. You might lighten up in some holdings. The psychology of rising rates may impact some stocks more than fundamentals. Equity trust share prices may vary simply because the present value of the same dividend will decline in a rising rate environment. Here we'd be inclined to buy on weakness.

THOSE CITIZENS & SOUTHERN REALTY WARRANTS: ANOTHER NUMBERS GAME BUT NO REAL PLAY

Right now holders of shares, warrants and bonds of Citizens & Southern Realty Investors are engaged in a three-cornered guessing game.

As this is written, no one knows one of the key variables: the price at which 300,000 Series A warrants will become exercisable in the next 30 days through Nov. 15, 1977. When the warrants were issued in October 1972, that price was fixed at "80% of the average daily mean between the high and low sales prices for the shares on the principal national securities exchange on which the shares are listed on the ten consecutive trading days ending prior to Oct. 15, 1977."

That period ended Friday, Oct. 14 as this issue went to press, and by the time you read this you'll have a better idea of what the magic price may be.

But in view of the language referring to a trading price on a stock exchange -- C&S was traded on the NYSE until suspended March 16, 1977 -- trust officials aren't sure what price would be regarded as definitive. Is it the OTC bid price, asked price, average of bid and asked? C&S Realty shares opened the crucial 10-day trading

period trading at 1/2 to 9/16 bid and 9/16 to 3/4 on the asked side on Oct. 3, first day of the period. They've now slipped to 5/16 bid, 1/2 asked and could end the crucial period either higher or lower. If that price range holds -- and it's a fairly good bet as this is written -- the exercise price under the formula would be about $0.44167 and each warrant would be exercisable into 226.4 shares per $100. Keep in mind however there's no assurance that both bid and asked prices would be taken into account in such a computation, or that this is the magic exercise price.

But if this price is about right, then the warrants theoretically could be exercised into 67.9 million new shares, totally swamping the 3.83 million shares now outstanding. There may not be an orderly market to permit sale of shares.

C&S Realty's dilemma is heightened by fact that $30 million principal amount of 6-3/4% subordinated debentures may be used at par to exercise the warrants. The debentures are in default of an April 15, 1977 interest payment and are currently quoted at 38 bid, 41 asked. Following conventional logic, the $100 debentures then could be bought for $41 now and used at par to buy approx. 226 shares, or an effective cost of about 18¢ per share. Put another way, anyone wanting to put up less than $700,000 cash could buy enough debentures ($1.7 million face amount) to exercise enough warrants to give the holder an absolute majority of shares.

The trouble with all this is twofold. First, C&S Realty's attorney has advised that anyone buying debentures in the marketplace for about 41 now and using them at par to exercise the warrants would have about $60 unearned income per $100 face amount of debentures (i.e., the difference between purchase and exercise prices). If the investor had held the debentures for over nine months, the income would be taxable at capital gains rates but still taxable. In either event, the investor would have to pay taxes without having income (i.e., dividends on the shares).

The second difficulty is that the bondholder would be giving up creditor status for equity ownership status. This is the last thing most bondholders want to do, especially in a troubled situation. The bonds mature in one year, on Oct. 15, 1978, and the trust has registered an optional exchange offering to pay either $35 cash for the debentures or to exchange them for a like principal amount of a new variable rate but longer term debenture. That offer is expected to be made formally in November via Lehman Bros.

There are several other wrinkles in the picture. The warrants contain an optional redemption feature saying the trust may, at its option, redeem them at $25 per warrant. But C&S Realty's credit agreement prohibits buying back any equity securities and this isn't rated a realistic alternative. Trust management has spoken of other unspecified alternatives open to the trustees but none have been adopted formally.

All this seems to us quite like the Chase Manhattan convertible exchange offer: a statistically attractive situation without any real serious investment merit. And there's some evidence all this may be much ado about nothing, anyway.

Why? Because nearly the same thing has happened once already in the troubled REIT industry. Early this year, NJB Prime Investors faced a similar potential dilution. It had 250,000 warrants outstanding exercisable during April 1977 at 80% of the average daily mean price on the 10 consecutive trading days before March 31, 1977. As with C&S, holders of NJB Prime's 7% debentures could use them at par to exercise the warrants. But trustees elected to redeem the warrants at 75¢ each as of March 7, 1977 and the exercise period passed without any warrants being presented for exercise. Subsequently the trust has been sued in both New

Jersey and New York state courts for unspecified damages on grounds that the redemption call violated terms of the warrants. The New York state action seeks a declaratory judgment that the warrants are exercisable. Since the shares traded at about 1/4 to 3/8 during the price determination period, the warrants theoretically could have been exercised into about 80-125 million shares, vs. NJB Prime's current 1.3 million shares out. While the redemption call doubtless clouded the issue here (about 150,000 warrants were redeemed), it's clear that very few investors were willing to put up cash to exercise these warrants.

Last January 28 we characterized the C&S situation as being academic because the trust was far under water with substantial negative equity. Since then C&S Realty has reaped about $57 million extraordinary gains on swapping nearly $200 million assets to its banks. Shareholders' equity was still $14 million negative as of June 30, new end of the trust's fiscal year. The situation is obviously interesting to arbitrageurs -- if they can find someone willing to buy the other end of whatever they're selling. And obviously the trust has some hope of recovering some of its massive $50 million loss reserves. But that's a speculation on the future, and we see so many other trusts with well defined recovery prospects that it makes little sense to put more new money into this higher risk situation. To us, it stacks up as another numbers game with very little investment play.

LARGE BLOCKS CHANGE HANDS AT HNC REALTY & MORTGAGE AND REALTY INCOME TRUST

Major blocks of shares in two REITs have changed hands. The sales continue the trend of shifting ownership of larger REITs.

A 31% ownership block of HNC Mortgage & Realty Investors moved into hands of an investment group that includes two trust officers and Cornelius C. Rose, Jr., an officer of two other REITs. The group bought 742,000 shares for $700,000 cash, or about 94-cents per share, on Sept. 30, vs. a trading range of 1-1/8 to 1¼ during the week of closing. The block had been offered for sale since August 1975 by original sponsor Hartford National Corp.

The trust will now become independently managed and will change its name to one not involving the bank holding company. The shares had been held and were sold by HNC Realty Co., wholly owned subsidiary of the holding company and former adviser to the trust. Hartford National Corp. originally paid about $14 million for its stake in the trust before writing the holding down to about $2.33/sh. in 1975.

The purchasing group of five individual investors was formed by Cornelius C. Rose Jr., chairman trustee of North American Mortgage Investors and trustee of Mortgage Growth Investors; trustees of both trusts rejected buying the shares directly before Rose formed the investment group. The group includes George S. Harkins and Robert T. Coughlan, chairman and president respectively of the trust since its inception in 1971. Rose has been elected a trustee of HNC and William J. Stanners and William Horowitz, both associated with Hartford National, resigned.

The new buyers thus acquire controlling interest in a trust with $98 million invested assets, a $23.6 million loss reserve (equal to about $9.89/sh.), and book value of $10.0 million, or $4.22/share. The purchase works out to a 78% discount from stated net asset value. The trust also has about a $20 million net operating loss for Federal income tax purposes, equal to about $8.40/share.

Simultaneously the trust signed a $60 million credit agreement with its creditor banks. The agreement matures in August 1979 and may be extended another year if about $23 million is repaid over three years. The minimum interest rate ranges from 2½% in the first year to 5% in the third year; if trust earnings exceed those

minimums, the trust will pay additional interest as earned up to a maximum 8% in the first two years and the prime rate or 8% during the third year. Any difference between amounts paid and the maximum rates will become contingent interest payable from 50% of future earnings for eight subsequent years.

The agreement essentially gives the trust a shot at maintaining shareholders' equity at its present levels for the three-year term. The trust earned 1¢/share in the nine months to July 31 after reporting 49¢/sh. extraordinary gain on exchange of $15.4 million assets with its banks. The operating loss before extraordinary gains narrowed to 3¢/sh. in the July quarter, best showing yet in HNC's recovery.

The trust's $98 million portfolio is now 46% property acquired in foreclosure, 23% nonaccruing mortgage loans, and 32% earning mortgage loans. The total 68% not earning income is down a bit from the peak. Holdings are 20% in condominiums, 18% in land and development, 13% office buildings, 12% in entertainment centers, 11% each in apartments and hotels/motels, 6% mobile home parks, and 9% in end loans to buyers of trust properties and other loans. Condominium and land holdings, the two largest groups, have proved to be the slowest to liquidate but holdings of these two property groups are now falling decisively. Condo holdings of $19.1 million are now down 35% from their peak while land is falling more slowly, the $17.8 million value being off only 10% from its peak. Acquired properties have now turned moderately positive in earnings, generating $204,000 and $368,000 net income after expenses in the three and nine months to July 31, equal to 8½¢/sh. and 15¢/sh. respectively; they had lost money the year before.

Thus HNC is a mortgage trust making a very slow recovery from recession conditions. It has made peace with its banks for three more years and is starting to improve earnings from foreclosed properties. Problem assets are being liquidated via asset swaps with banks and sales to third parties. The shares at 1-7/16 bid OTC still sell at 65% below a net asset value which appears to be stabilizing. Cutting of the ties to the bank sponsor should give management more flexibility in dealing with problems and the shares become more interesting speculative vehicles.

Meantime 20% of shares of Realty Income Trust were sold to a European investment group, Chevy Chase Property Co. Ltd., of Bermuda. Chevy Chase is owned by European investors, mainly Scottish investment trusts, and once owned a small REIT called Chevy Chase REIT which was merged into Property. Henry Mortimer of E.F. Hutton & Co., the investment bankers, has joined Realty Income's board representing Chevy Chase.

The 300,000 share block was sold by Industrial National Corp., Rhode Island bank holding company which had acquired the shares in exchange for a group of branch banks in 1972, for about $10.50/share. The sale price wasn't disclosed but did not exceed recent market quotations for RIT in the $12-$13 range. The price was believed to exceed Industrial National's cost basis, however.

Realty Income has book value of about $12.07/sh. and currently is paying dividends at a $1.40/sh. annual rate, mainly from large capital gains recorded in its April 1977 fiscal year. The trust is using the gains to rearrange its portfolio substantially and while earnings aren't expected to cover the dividend in fiscal 1978, progress should be made from the 10¢/sh. earnings of the July quarter. A Holiday Inn in Hempstead, L.I., N.Y. has been sold in a leaseback transaction that should improve earnings. We have ranked the shares No. 2, above average, in recent RELATIVE APPEAL RANKINGS.

DENVER REAL ESTATE INVESTMENT ASSOCIATION (8 5/8--OTC-DENVS) FY Dec 31

Real estate investments: The $48 million portfolio is mostly equity except for 8% in second mortgages taken back on properties sold. Although little increased the past year, properties have been revamped and expanded nearly 50% over a five-year period. The property makeup as of yearend 1976 by gross investment was 39% office buildings, 23% shopping centers, 16% hotel/motel, 12% commercial and 10% apartments. Nearly all properties are in the Denver metropolitian area with a few small ones in neighboring Colorado cities of Boulder and Colorado Springs. Gross revenues are contributed in about the same proportion as investment with offices providing 44%, up from 13% five years ago, and apartments 15% vs. 44% five years ago. Revenues from shopping centers and motels were 22% and 14%, respectively, the same percentage as five years earlier.

Of the four office buildings, the 337,000 sf Diamond Hill complex accounts for two-thirds of the group's value. Located on I-25 outside downtown Denver, it had rent-up problems stemming from office overbuilding in Denver's suburbs. Instituting rent reductions in 1976, leasing was built up to 95% this summer. The trust's biggest investment, $12.7 million and nearly 25% of portfolio value, it passed operating breakeven in September. Earlier, it was causing a $25,000 monthly operating drain. Rents were taken at $7/sf to fill the building and are being raised selectively to $7.50/sf. By yearend, occupancy of 98% is expected. Most of the trust's 700,000 sf of shopping center space is in 538,000 sf Lakeside Mall. A successful center since built in 1956, it required major renovation, however, to stay competitive as newer centers copied it and added improvements. A $2.5 million renovation was just completed which enclosed the mall adding another 10,000 sf in the process. Renting of the new space is on schedule for lease-up by yearend. The full impact will be felt in 1978. The mall's two major tenants, Montgomery Ward and Denver Dry Goods, each spent over $1 million remodeling their space and their sales are up substantially. The third major property is the $7.6 million motel, Stouffer's Denver Inn. Built by the trust in 1971 near Denver's airport, it grossed $1 million last year and was such a strong earner that it permitted $3.4 million new financing. This expansion, begun in August, entails adding 200 rooms to the 404-room inn, providing a 10,000 sf meeting and convention center and adding a parking deck. Completion is targeted for May, 1978.

Thus while no new properties were added in recent months, the expansion programs will add about $6 million to the portfolio when completed. And while there is no financial room for major purchases, properties can be exchanged. One is under consideration whereby an apartment complex written down to about $2 million on which the mortgage is paid down to where the trust has $1.5 cash will be exchanged for a $4-5 million property, a $2.5 million portfolio addition. The trust is considering only commercial structures. Denver has not proved a stable apartment market because of overbuilding even though underlying growth has been good.

Financing: Debt is now 4.3 times equity, a relatively high ratio but not out of line for an equity trust. The ratio moved up in recent years as refinancing was used as a tool for expansion. Additionally, some purchases were made for minimal cash. Refinancing has proved most feasible for financing major exyansions as at Lakeside Mall and Stouffer's Denver Inn because new mortgage proceeds are tax free. Something must be given up, however, to recast the loan. The original Lakeside Mall mortgage with a $2.1 million balance carried interest at 5% which was raised to 9½% on the new loan providing $2.5 million for renovation and the trust pays 5% of gross rents over $1.6 million.

Management: The trust camé under new management in 1972 which initiated the recent expansion. Swanson Properties became investment and real estate adviser. Trustees and the adviser are local to Denver consisting of real estate and business people.

Results & outlook: Earnings in the June quarter were deficit 7¢/share vs. deficit 9¢ in the March quarter while cash flow recovered to 10¢/share from nil. The September quarter was little changed as most expenses are incurred in the first nine months. For the year, the trust still expects 25-30¢/share with big income from in

the fourth quarter when the shopping centers and motels contribute heavily. Next year should be much better. While the shares' near-term appeal is limited by the modest yield, there is longer term potential. Value is reasonable with price little over depreciated book value of $8 while there is also accumulated depreciation of $6. This looks good for a local, well controlled equity trust. (BS)

REALTY AND MORTGAGE INVESTORS OF THE PACIFIC (11 7/8--OTC-RPACS) FY Nov. 30

Real estate investments: Holdings were $85 million, down 2% over the past year and little changed over two years now. Investments are in and near the Pacific Ocean area: 47% California, 13% Hawaii, 10% Guam, 8% Fiji, 6% Arizona, 3½% Nevada, 3½% Indonesia, etc. A mixed trust with long-term and equity orientation, biggest categories are 41% long-term loans, 14% standing loans and 30% property ownership. Property type is: loans (70%), 23% hotels/motels, 16% apartments, 5% land, 4% condos, 10% other; property ownership (30%), 10% office building, 8% land leasebacks, 4% shopping center, 3% apartment/motel, 2½% partnerships, 2% land.

RAMPAC has enjoyed one of the lowest problem categories for a sizeable mortgage trust. Latest non-earnings were $6.1 million, 7% of holdings, and low earnings were $12.8 million, 15% of holdings. Non-earning are two loans for $4.7 million. There is still $2.5 million left in a condo and land loan in Scottsdale, Ariz. The 108 condos are now virtually all sold out with the unimproved adjacent land, about 65 acres, all that is left. This land should be sold in 1-2 years as several developers are expressing real interest. The other loan is $2.2 million in a 78-unit apartment-hotel project on Guam. A new partnership was set up which only awaits court approval. It should come in a month or so and will restore the loan to earning. The $1.2 million in the foreclosed Royal Inn in Escondido, Cal. is still tied up in the courts. Legal resolution seems likely by yearend. An original party admits to some liability which should cut RAMPAC's loss. Sale is probable for conversion to a retirement home. There are two low earning foreclosures. There is $2.2 million in the Guam Horizon apartment-hotel on Guam acquired in 1975. Its occupancy improved last year and cash flow was slightly better to where it now provides a small return over cost of funds. Lastly, the trust has a 14-story, 95,000 sf office building in Los Angeles' downtown business district in which it has $9.5 million. Losing $24,000 monthly at the start of the year, it is now 94% leased with only the 5,700 sf of penthouse space vacant. It will be at breakeven at yearend but 4-5 years before big returns accrue as the former owner took low rent leases without escalations. It is one of the biggest swings in the portfolio.

Portfolio growth will depend on being able to find suitable deals, which are rare. Projected paybacks next year are $7 million but two big loans may be extended.

Loss reserve: The trust has set aside $845,000 for possible losses. Although only 1% of the portfolio, problems are well defined and the reserve continually updated. The present reserve could prove more than adequate.

Financing: Total debt of $51.9 million is 1.5 times equity of $34 million. Debt includes $11.8 million 6 3/4% convertible debentures due 1991. The trust has borrowed $8 million under a $15 million revolving credit expiring Nov. 30, 1977 and issued $23.5 million commercial paper under $24 million open lines of credit from three banks. A new agreement is under negotiation which will bring the two into one agreement with much the same terms but with a cap (maximum) rate and for five years. Interest rate on bank borrowings is 125% of prime. About 37% of funds now float with market rates while about 10% of the portfolio floats.

Management: Trust is sponsored by Bank of Hawaii, largest bank in the central Pacific.

Recent results & outlook: In the August quarter, earnings of 32¢/share were reported (28¢ for tax purposes because of the difference in recognizing a capital gain). August was hurt by a 10¢ charge for a lawsuit settlement only partly offset by the property sale gain but results still topped the 27¢ May quarter. The November quarter shapes up close to the August quarter operationally. Improvement is likely in fiscal 1978 although this depends partly on money costs as funds are more rate sensitive than holdings. But problem restoration looms as more important on the plus side. The 28¢ quarterly dividend provides a decent 9½% yield and should at least be maintained. The shares have some recovery potential part way back to $18 book value. (BS)